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California State Board of Equalization P.O. Box 942879, Sacramento, CA 94279-0001

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Do these regulation changes affect your business?

To find out, check the following changes to sales and use tax regulations below, which cover the period from October 2005 through January 2006. For copies of Board regulations, go to www.boe.ca.gov/ sutax/staxregs.htm, or call our Information Center at 800-400-7115.

1584. Membership Fee

Regulation 1584 explains that membership fees related to the anticipated retail sale of merchandise are taxable when the retailer sells its products only to members and the membership fee exceeds a "nominal amount." The amendments explain that operative January 1, 2006, the term "nominal amount" means an amount totaling \$50 or less per year for purposes of this regulation.

1620. Interstate and Foreign Commerce

Regulation 1620 was amended to explain that when a locomotive is both purchased and first functionally used outside of California, use tax will not apply to its purchase if one-half or more of the miles traveled by the locomotive during the six-month period immediately

following its entry into California are commercial miles traveled in interstate or foreign commerce.

1698. Records

Revenue and Taxation Code section 7073 provides that the Board may issue deficiency determinations up to ten years after reporting periods that could have been eligible for tax amnesty. Regulation 1698 was amended to explain that for reporting periods beginning before January 1, 2003 that could have been eligible for tax amnesty, taxpayers must retain their records for ten years.

1823.4. Place of Delivery of Merchandise Generally

New Regulation 1823.4 explains the exclusion from district use tax when merchandise is delivered to a purchaser for use outside of the district. The regulation provides a sample form for purchasers to provide to retailers for these transactions.

District offices offer a variety of services

The Board's district offices offer many services intended to help

you with your tax obligations. If you visit one, we recommend you plan ahead as the end of each quarterly reporting period and the fiscal year-end are always busy. At any district office, you can:

- Register for a seller's permit for sales and use tax purposes, especially if you need your permit quickly.
- Register to vote or to change your voting address.
- Attend free, classes on basic sales and use tax and sales and use tax return preparation. From time to time, a district office may conduct a seminar for businesses in specific industries. Be sure to check with your area district office or check the Board's website to see when the next seminar is scheduled.
- Receive bilingual services for taxpayers who speak languages other than English.
- Find answers to many tax questions in our publications and from our compliance staff in charge of your account.

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- Receive accommodation under the Americans with Disabilities Act (ADA), which ensures equal public access to our services.
- Speak with a representative if you have a specific question about your account, such as questions regarding an audit, tax payment, bill, lien, or levy. For these matters, please call the office that maintains your records. The name and telephone number of the appropriate office is printed on your tax return.
- Update any information concerning your account, such as your address, ownership change, sale of your business, purchase of another business, or the closure of your business.

Information Center

Can't visit your district office? Our Information Center is available for answers to your general tax questions. Representatives can assist you from 8 a.m. to 5 p.m. Pacific time Monday through Friday (except state holidays). Toll-free number: 800-400-7115 TDD/TTY: 800-735-2929 and Voice Phones: 800-735-2922.

New Tax Rates to Take Effect on July 1, 2006

City of Laguna Beach voters have approved a new transactions and use tax, the Laguna Beach Temporary Transactions and Use Tax (LGBH), effective July 1, 2006. The district tax is a 0.5% general purpose tax that expires on June 30, 2012. The city of Laguna Beach is in Orange County. The tax rates in the areas of the county outside of Laguna Beach will remain the same.

Also, the city of Woodland's district tax will expire effective

midnight June 30, 2006. This reduces the tax rate in Woodland from 7.75% to 7.25%.

Check the March 2006 Tax Information Bulletin for other new tax rates effective April 1, 2006.

Which retailers must collect tax at the new rate?

You must apply the new sales and use tax rate if you:

- Are a retailer in the district and your merchandise is sold and delivered within the district.
- Are a retailer located outside the district who is engaged in business in the district and you sell merchandise for use in the district. You are considered to be engaged in business in the district if you (1) have any type of business location there, (2) deliver into the district using your own vehicles, or (3) have an agent or representative in the district for the purpose of taking orders, selling, delivering, installing, or assembling.
- Are a dealer of vehicles, vessels, or aircraft and sell those items to customers who register them at an address located in the district.
- Collect tax on lease payments you receive for leased property used by the lessee in the district. Note: If you are not required to collect the additional district tax, as described above, the purchaser is liable for the tax.

Is your address in the city limits or unincorporated county?

District boundaries are generally defined by city and county lines. Many California zip codes overlap city and county lines. To determine what district taxes your address is affected by, contact your local city or county government, or visit the links on the following page of the

Board's website: www.boe.ca.gov/ sutax/pdf/districtratelist.pdf (it contains a partial list of participating cities). If you have additional questions, please call our Information Center at 800-400-7115.

What's the difference between EFT and E-file?

Have you recently been notified that you must participate in the Electronic Funds Transfer (EFT) Program? Or are you confused about how EFT is different from Electronic File (E-file)?

Electronic Funds Transfer is for tax or fee payments only

Participants in the EFT program must still file a paper return. EFT is mandatory for sales and use tax permit holders whose average monthly tax payments (over a 12-month period) equal or exceed \$10,000, and special taxes accounts (including most environmental fees, excise and fuel tax accounts), whose average monthly tax or fee payments equal or exceed \$20,000. EFT payments are made by authorizing a financial institution to transfer money from your bank to the state's bank account electronically, which eliminates the need for paper checks. Payments can be initiated by telephone, PC software, or over the Internet. We will notify in writing all sales and use tax account holders and special tax account holders that are required to pay by EFT. At this time, tax or fee payers who are required to pay by EFT are not eligible to E-file their return and must still file their paper returns and reports timely.

E-filing is for electronic return filing and electronic payment, and is voluntary

E-filing provides eligible taxpayers (sales and use tax, single-outlet retailer accounts) with a more con-

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venient electronic method of filing their returns or reports and paying amounts owed. E-filing eliminates the need to file a paper return or mail a check to the Board as both are completed electronically. Taxpayers can E-file directly through the Board or through an approved third party service provider. The return and payment information is transmitted electronically and the E-filer receives a confirmation number as a receipt.

For more information on EFT call 916-327-4229. For E-file and other electronic services that we offer, call our Information Center at 800-400-7115. Or visit our website at *www.boe.ca.gov* and select the E-Services menu at the top of the page.

Sales of specialty repair items could be taxable

Sellers of specialty repair supplies generally charge tax reimbursement to their customers (such as auto repair garages, service stations and automobile dealerships) on sales of such items as filters and solvents sold for use in engine flushing. Their customers are generally considered the consumers of such items and tax applies to their purchases when they are to be used in the performance of a service.

Solvents and filters sold for use in dissolving sludge and varnish from a motor engine do not become a component part of the engine being repaired (cleaned). Such customers perform an engine cleaning service for the vehicle owners. Flush systems usually consist of a machine that dispenses engine flush solution through an automobile engine to clean contaminants and dirt out of the engine. During the flush service the solution is pumped through and drained from a vehicle and

then is filtered to purify it for future use. The flush kits include solution to be used to flush the system and filters used in the process.

The kits are taxable retail sales to auto repair garages, service stations and dealerships in California. They do not transfer title or possession of the solution or filters to their individual customers. Therefore, they cannot properly issue a resale certificate for their purchases of these products for use in servicing their customers.

For more information concerning this type of business, please refer to publication 25, *Tax Tips for Auto Repair Garages and Service Stations*, available from our website *www. boe.ca.gov*, or call our Information Center at 800-400-7115.

Did you make online or other out-of-state purchases?

You might owe use tax

Most businesses understand when they must report and pay sales tax, but they aren't always so sure what to do when it comes to use tax. One of the more common reporting errors occurs on line 2 of the sales and use tax return, "Purchases Subject to Use Tax."

What is use tax?

When an online or other outof-state retailer does not collect California tax on an item you purchase, you may owe use tax. This is a tax on your use, storage, or consumption of tangible personal property in this state. The use tax rate is the same as your sales tax rate would have been.

How do I pay use tax?

You pay use tax by reporting the amount of your purchase on line 2, "Purchases Subject to Use Tax," of the tax return for the period that includes the date when you first used, stored, or consumed the item in California.

What if I already paid use tax to the out-of-state retailer?

Some out-of-state retailers are required to collect and report California use tax from their customers. Some of these retailers have voluntarily registered to do this. You do not need to report the purchase on line 2 of your return if you already paid the correct amount of California tax to an out-of-state retailer that is registered to collect the tax.

For more information on use tax, please see our publications 110, *California Use Tax Basics* and 112, *Purchases from Out-of-State Vendors*.

Small Business Fairs

We invite current and potential business owners to attend one of our upcoming Small Business Fairs, which offer information workshops on federal, state, and local taxes as well as other government requirements. The fairs are free, but reservations are recommended.

Upcoming Fairs

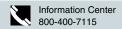
San Rafael, October 13, 2006

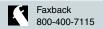
Marin Center

For more information, contact our Santa Rosa Office Small Business hotline at 707-576-2300.

To check for other upcoming fairs, please visit our website at www.boe.ca.gov/sutax/tpsched.htm.

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New publication covers Ewaste recycling fee

Publication 95, Electronic Waste Recyling Fee, provides general information about California's Electronic Waste Recycling Fee, or Ewaste, to retailers who sell or lease certain electronic devices. The publication answers many questions about the fee and how it's used, which products are subject to the fee, how to register for an Ewaste account and more.

For a copy of the publication, call our Information Center at 800-400-7115, or view and/or print the electronic version from our website at www.boe.ca.gov/info/allpubsa.html.

Note: If you are a retailer that sells or leases computer electronic devices and have not yet registered for an Ewaste account, or if you have questions that are not answered in the publication, please contact the Electronic Waste Recycling Fee Section at 916-341-6906 weekdays, 8 a.m. to 5 p.m.

Do you operate, but not own, an underground storage tank?

If you operate—but don't own—an underground storage tank, you can help the owners by informing them they must register with the Board and report and pay the underground storage tank maintenance fee due on the petroleum-based products placed in the tanks. Penalty and interest charges apply to unpaid fees, so it is important that owners not yet registered do so as soon as possible.

If you have questions, or need to register as the owner of an underground storage tank, call 916-322-9669 or go to our website at www.boe.ca.gov/pdf/pub88.pdf.

Notice to consumers buying cigarettes online

Retailers: Watch for a notice that will help you alert customers buying cigarettes over the Internet that they may owe taxes. The notice, which we encourage you to post, will be in your 2006 cigarette and tobacco products license renewals. We have records of many Californians buying tobacco products via online, mail, and telephone from out-of-state vendors. If the vendors do not collect the required excise and use taxes, the purchasers must pay them. For details, contact us at 916-327-4208.

Revised Reference Material

Revised Sales and Use Tax Regulations

- 1584 Membership Fees (January 10, 2006)
- 1620 Interstate and Foreign Commerce (January 28, 2006)
- 1698 Records (November 3, 2005)

New Sales and Use Tax Regulation

1823.4 Place of Delivery of Tangible Personal Property Generally (January 26, 2006)

Revised Publications

- 63 Cigarette Distributor Licensing and Tax Stamp Guide (January 2006)
- 119 Sales Tax and Warranties (February 2006)
- 32 Tax Tips for Sales to Purchasers From Mexico (January 2006)
- 78 Sales of Cigarettes and Tobacco Products in California (February 2006)
- 36 Tax Tips for Veterinarians (February 2006)
- 108 When Is Labor Taxable? (February 2006)
- Sales to Residents of Other Countries (March 2006)
- 113 Coupons and Sales Tax (February 2006)
- 22 Tax Tips for the Dining and Beverage Industry (March 2006)
- 75 Interest and Penalties (March 2006)

Translated Publications

- 22 Tax Tips for the Dining and Beverage Industry (June 2004) Revised Translation, Spanish
- 44 Tax Tips for District Taxes (April 2003) New Translation, Spanish
- 50 Guide to the International Fuel Tax Agreement (June 2003) Revised Translation, Spanish
- 76 Audits (July 2003) Revised Translation, Spanish
- 79A Aircraft and California Tax (April 2003) New Translation, Spanish
- 116-S Sales and Use Tax Records (March 2005) New Translation, Spanish

For More Information

All telephone numbers are toll-free

Internetwww.boe.ca.govwww.taxes.ca.govInformation Center800-400-7115TDD/TTY: 800-735-2929Requests for Fax Copies800-400-7115 (Choose automated services)

Seller's Permit Verification 888-225-5263 ■ www.boe.ca.gov

Taxpayers' Rights Advocate 888-324-2798 ■ www.boe.ca.gov

Tax Evasion Hotline 888-334-3300

State Legislation www.leginfo.ca.gov/bilinfo.html

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